

ORIGINAL



January 13, 2011

Commissioner Gary Pierce, Chairman  
Commissioner Bob Stump  
Commissioner Paul Newman  
Commissioner Sandra D. Kennedy  
Commissioner Brenda Burns  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

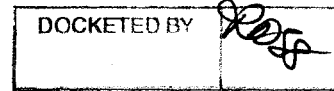
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Arizona Corporation Commission  
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Re: *ACC Workshop Docket No. W-00000C-06-014<sup>3</sup> Compliance with Decision No 71878; Distribution System Improvement Charges; January 14, 2011*

Dear Commissioners:

The Arizona Investment Council appreciates your efforts to consider ways to improve the ratemaking process for water companies. In this regard, we are pleased to participate in the Commission's workshops, which bring together companies, Commission staff, interested stakeholders, and Commissioners to study and discuss various approaches for streamlining the regulatory process for over 300 ACC-regulated water companies.

As reported in Arizona and throughout the nation, our essential backbone infrastructure is in constant need of replacement and augmentation. Timely investment in our water systems is especially important to ensure safe and adequate delivery of water to families and businesses. Failure to do so places our communities at significant risk.

In 2008, the Arizona Investment Council issued a report prepared for it by economists from Arizona State University's W.P. Carey School of Business, which looked at infrastructure funding requirements in Arizona over the next 25 years in four critical areas: energy, telecommunications, transportation and water/wastewater<sup>1</sup>. In the area of water infrastructure, the report states, "... the water delivery and treatment systems built decades ago are now due for replacement. ... the dawn of the replacement era is upon us in Arizona." The study projects that over the 25-year projection period (through 2032), providers in Arizona will need to spend \$109 billion on water and wastewater infrastructure (supply augmentation, operating costs infrastructure replacement and new construction). The projected cost for rehabilitation of drinking water systems and construction of new systems to serve the state's growing population is estimated at \$29 billion.

<sup>1</sup> Arizona Investment Council, "Infrastructure Needs and Funding Alternatives for Arizona: 2008-2032" prepared by L. William Seidman Research Institute, W.P. Carey School of Business, Arizona State University, May 2008. Available for download at [http://arizonaic.org/images/stories/pdf/AIC\\_Executive\\_Summary\\_Final.pdf](http://arizonaic.org/images/stories/pdf/AIC_Executive_Summary_Final.pdf)

Clearly, our infrastructure requirements are immense and will require substantial investment for us to keep pace with needs.

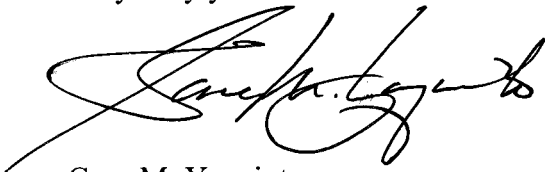
AIC believes one way to assist in meeting Arizona's water system infrastructure needs is through the implementation of Distribution System Improvement Charges, or DSICs. DSICs provide a dedicated funding source for replacing aging infrastructure and should be given serious consideration for implementation by the Commission.

The benefits of using DISCs to fund water system infrastructure improvements include:

- Provides continuing and stable source of investment funds for replacing aging infrastructure
- Lessens rate spikes and introduces rate gradualism
- Reduces pressure on future rate increases that might be necessary due to significant infrastructure failures
- Improves system reliability and service delivery

In conclusion, AIC thanks the Commission for its efforts to improve the regulatory process and reduce regulatory lag. We strongly believe that progress in this area will improve the competitive position of Arizona utility companies in attracting the necessary capital for investment in the state's essential infrastructure.

Very truly yours



Gary M. Yaquinto

cc: Steven M. Olea  
Elijah Abinah  
Nancy Scott

Original and 15 copies filed with Docket  
Control this 13<sup>th</sup> day of January 2011